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SUBJECT: RUSSIAN EXPERT EXPRESSES "RESERVED OPTIMISM" ON HOUSING

Summary

¶1. (SBU) Continuing our series of cables on Russia's housing sector, Econoffs met with Alexander Puzanov, General Director of the Institute for Urban Economics. Puzanov told us that the obvious solution was to increase the supply of housing. He was optimistic that this would occur eventually through market forces but argued that the government should take action to speed the process. In that regard, Puzanov said that while the GOR appeared to have good intentions, its poor track record on housing did not inspire confidence that it would do what was needed. End Summary.

Housing: A Complicated Crisis

¶2. (SBU) Puzanov said that the lack of housing has pushed prices so high that less than 20 percent of families can realistically afford a new home even though mortgages are increasingly available. He said the lack of land for residential construction is a key factor driving up housing prices. Puzanov explained that 90 percent of land in Russia is owned by state and municipal governments who do not have an efficient (read: corruption-free) method of re-zoning large tracts of agriculture and forestry land for housing.

¶3. (SBU) Puzanov said the GOR has re-zoned some land for residential use and auctioned off plots. However, more often than not, he said the land is purchased by a wealthy developer. The developer in turn builds expensive homes for Russia's elite, which have higher profit margins than middle class housing. Puzanov said that until the high-priced housing market is saturated, developers and construction companies will not even consider building mid-range housing.

¶4. (SBU) Puzanov said he was optimistic that rising incomes and falling interest rates would eventually lead to improved housing affordability. In an optimistic scenario - "if all goes according to plan" - Puzanov estimated that by 2020 the number of homes purchased by Russians would increase from today's 2.5 million to 4 million per year.

Government Intervention Needed and Underway

¶5. (SBU) However, Puzanov told us that the key to speeding up this process was government action. In that regard, he said

he was encouraged by President Medvedev's May promise to continue previous GOR efforts on housing and by the GOR's decision to include housing market reform in its long term "2020" development plan. Puzanov said the GOR has pledged to increase housing stock by 2020 using a combination of incentives and public-private partnerships to more than triple housing construction. He said that among some of the more promising measures the government was considering or had begun to implement were the following:

-- A Fund to Assist Housing Maintenance: Established in January, its goals are to repair existing housing stock and to resettle people from uninhabitable housing. Puzanov said the GOR hopes this Fund will also encourage market mechanisms for housing construction and repair, such as home ownership associations and cooperatives; and

-- A Fund to Promote Housing Construction: This Fund was announced by Medvedev in April. Puzanov said its purpose is to address the lack of land for residential construction. The Fund plans to redistribute up to one million hectares of unused government land for residential building projects and for factories to produce scarce construction mater